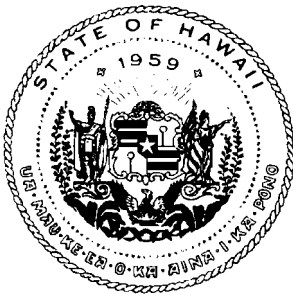


Report to the 2010 Hawaii State Legislature:

Relating to Projects Funded by the Rental Housing Trust Fund



**Prepared by:
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Department of Business, Economic Development & Tourism**

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NOTE:

Section 201H-202, Hawaii Revised Statutes (HRS), requires the Hawaii Housing Finance and Development Corporation (HHFDC) to submit reports to the Legislature:

1. "[D]escribing the projects funded and, with respect to rental housing projects targeted for persons and families with incomes at or below thirty per cent of the median family income, its efforts to develop those rental housing projects, a description of proposals submitted for this target group and action taken on the proposals, and any barriers to developing housing for this target group" (§201H-202(f)); and
2. "[O]n the number and use of grants provided and whether the grants were an effective use of the funds for purposes of developing rental housing for families at or below thirty per cent of the median family income." (§201H-202(i)).

This report addresses both requirements.

The HHFDC, pursuant to section 201H-202(e)(1), HRS, gives first priority to Rental Housing Trust Fund (RHTF) applicants that target at least 5 percent of units to households at or below 30 percent of median family income (MFI). From July 1, 2006 through July 31, 2009, the HHFDC Board of Directors made RHTF project commitments to the following affordable rental housing projects.

Year	Name	Location	Type	Developer	Project Status as of (07/31/09)	Total Unit Count	Number of Units at 30% AMI	Amount of RHTF Loan/Grant (grants in <i>italics</i>)
2006	Hale Wai Vista Phase I	Waianae, Oahu	Family	Hawaii Housing Development Corporation	Under construction	84	5	\$5,500,000 (*grant converted into a loan)
2006	Building 34, Kalaeloa Residence Hall	Kalaeloa, Oahu	Family	Cloudbreak Hawaii, LLC	In service	80	3	\$1,000,000
2006	Hale Wai Vista Phase II	Waianae, Oahu	Family	Hawaii Housing Development Corporation	Predevelopment	132	7	\$16,235,762
2007	Ainakea Senior Residence	Kapa'au, Hawaii	Elderly	Hawaii Island Community Development Corporation	Under construction	30	2	\$5,300,000
2007	Ewa Villages Phase II	Ewa Beach, Oahu	Family	EAH, Inc.	Predevelopment	76	4	\$6,768,000
2007	Kahikolu Ohana Hale O' Waianae	Waianae, Oahu	Family, Emergency/ Trans Hsg	Hawaii Coalition of Christian Churches	In service	72 (plus 40 emergency beds)	16	<i>Grant: \$2,356,000</i>
2007	Kahului Town Terrace	Kahului, Maui	Family	EAH, Inc.	In service	72	5	\$8,331,609
2007	Hale Makana O' Nanakuli	Nanakuli, Oahu	Family	Hawaii Community Development Board	Award returned due to inability to secure other financing	48	47	<i>Grant: \$3,000,000 (grant returned to HHFDC)</i>

Year	Name	Location	Type	Developer	Project Status as of (07/31/09)	Total Unit Count	Number of Units at 30% AMI	Amount of RHTF Loan/Grant (grants in <i>italics</i>)
2008	Hale Mohalu II	Pearl City, Oahu	Elderly	Coalition for Specialized Housing	Predevelopment	164	9	Loan: \$16,150,000 <i>Grant: \$850,000</i>
2008	Franciscan Vistas Ewa	Ewa Beach, Oahu	Elderly	St. Francis Development Corporation	Predevelopment	150	8	Loan: \$13,800,000 <i>Grant: \$725,000</i> <i>(*grant converted into a loan at developer request)</i>
2008	Ewa Villages Phase I	Ewa Beach, Oahu	Family	EAH, Inc.	Predevelopment	64	4	\$5,990,240
2008	Mokuola Vista	Waipahu, Oahu	Family	Homes Hawaii, Inc.	In service	70	4	Loan: \$2,355,072 <i>Grant: \$144,928</i>
2008	Senior Residence at Kapolei 2	Kapolei, Oahu	Elderly	Sr. Residence at Kapolei, Inc.	Predevelopment	20	1	Loan: \$850,000 <i>Grant: \$250,000</i> <i>(*grant converted to a loan at developer request)</i>
2008	Lokahi Ka'u	Kailua- Kona, Hawaii	Family	Allied Pacific Development, LLC	Under construction	306	19	\$11,750,000
2008	Senior Residence at Iwilei	Honolulu, Oahu	Elderly	Sr. Residence at Iwilei LP	Award returned due to lack of progress in securing other financing.	155	20	<i>Grant: \$5,000,000</i> <i>(grant returned to HHFDC)</i>
2009	Hale Ohana Apartments	Koloa, Kauai	Family	Micon Real Estate	Predevelopment	48	4	\$7,769,346
2009	Honokowai Villa Apartments	Lahaina, Maui	Family	Micon Real Estate	Predevelopment	56	4	\$9,843,446

Barriers to Developing Housing For Persons and Families at or Below Thirty Per Cent MFI

The largest barrier to development of housing for this income group is lack of available funding to subsidize project development costs and ongoing operating expenses due to the low rents that such households can afford to pay. Based upon the U.S. Department of Housing and Urban Development (HUD) 2009 Income Limits for households at 30% MFI, affordable rents are between \$456 and \$642 per month for two-bedroom apartments, depending upon the county in which the project is located. This amount of rent is not sufficient to cover debt service and operating expenses for rental projects without substantial subsidy. As a result, developers are not developing housing for this income level unless there is sufficient subsidy available to make the entire project economically feasible, such as HUD Section 8 Housing Choice Vouchers, or U.S. Department of Agriculture - Rural Development assistance.

While subsection 201H-202(i), HRS, allowed the HHFDC to provide RHTF grants for the development of units in this price range, there remains the problem of ensuring that rental income, which will remain restricted for the entire project commitment period (on average 30 years) would be sufficient to cover project operational costs, including ongoing maintenance, utilities, management and legal expenses over the long term.

Effectiveness of RHTF Grants in Increasing Rental Housing For Persons and Families at or Below Thirty Per Cent MFI

Based upon the experience to date, the RHTF grants were **not** an effective use of state funds for the following reasons:

1. Only one RHTF grant application was submitted in which the developer proposed setting aside at least 50 percent of total units for households at or below 30% MFI (Hale Makana O' Nanakuli). Despite the RHTF grant award, the developers of that project were not able to secure sufficient other financing and ultimately returned the grant award. No project primarily targeted at 30% MFI will be placed in service as a result of the grant pilot program;
2. The majority of projects that applied for and received RHTF grants did not include more than the 5% of total units at 30% MFI already mandated by subsection 201H-202(e)(1), HRS. It appears that developers were not willing to increase the proportion of 30% MFI units in their projects due to the availability of RHTF grants as an incentive;
3. RHTF grants are limited in effectiveness as an incentive for the development of additional 30% MFI units in part because of the negative tax implication on Low Income Housing Tax Credit (LIHTC) limited partnerships. Any project grants are considered income, prompting a tax liability not originally contemplated by the limited partners. Grants could also negatively impact a LIHTC limited partner's capital account, such that their ownership interest and yield on the LIHTC may be negatively impacted. For these

reasons, three RHTF grant recipients subsequently requested conversion of their grants to RHTF loans, without modification of the affordability restrictions on their projects; and

4. RHTF loans are typically back-loaded 40 year loans, at below market interest rates. To enhance project economic feasibility, the HHFDC generally defers interest and loan repayments for the first few years until the project occupancy and cashflow has stabilized. Therefore, RHTF grants do not provide sufficient additional benefits to the developer to motivate the inclusion of additional 30% MFI units in their project proposals.